



Development prospects for the Horn of Africa countries to 2040

Scenario Development

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Scenario Development

The preceding Current Path analysis has revealed that the Horn of Africa is one of the world's most challenging regions for security and development. Political instability, widespread insecurity, conflict and bad governance impede human and economic development. Can these countries perform better than the Current Path forecast? Are they at risk of regressing below the Current Path forecast?

The futures of these countries will be shaped by the policy choices that their leaders make and the dedication with which those policies are implemented. We evaluate the impact of the scenarios against the Current Path forecast presented in the previous sections.

It is not difficult to see how a combination of developments could launch the region on a positive trajectory. The rapprochement between Eritrea and Ethiopia that started in 2018 was unthinkable under the leadership of Ethiopia's long-standing prime minister Meles Zenawi. Yet within a few weeks, Prime Minister Abiy Ahmed ended competition and conflict between the neighbours that had cost thousands of lives.

The end of the border conflict was followed by a series of trilateral meetings between the leaders of Eritrea, Ethiopia and Somalia who proposed a new regional bloc, the Horn of Africa Cooperation. Critics pointed to the fact that the proposed arrangement appeared primarily aimed at providing landlocked Ethiopia with alternative access to the sea (beyond only Djibouti) and as a ploy to return Eritrea to the international fold.

Yet the potential for closer collaboration between the three countries was followed by the chain of events in Sudan that saw the departure of its long-standing dictator to eventually be replaced by Hamdok, a respected international economist.

There are numerous other developments that, taken collectively, could launch the region on an entirely new trajectory. Externally, it would require a common approach among the Gulf states that peace, stability and development in the Horn would be in their interest. When the Gulf states cease to instrumentalise countries in the Horn for their domestic interests and work together, their considerable financial muscle, including that of countries such as Turkey, could positively impact the entire region.

Positive engagement from the Horn's large diaspora community would similarly have positive effects. As would the realisation that the region needs to embrace a collaborative vision on the use of key natural resources—the Nile River in particular. The acrimony and competition that has swirled around the GERD, as one example, demands an approach premised on the shared management and use of key natural resources.

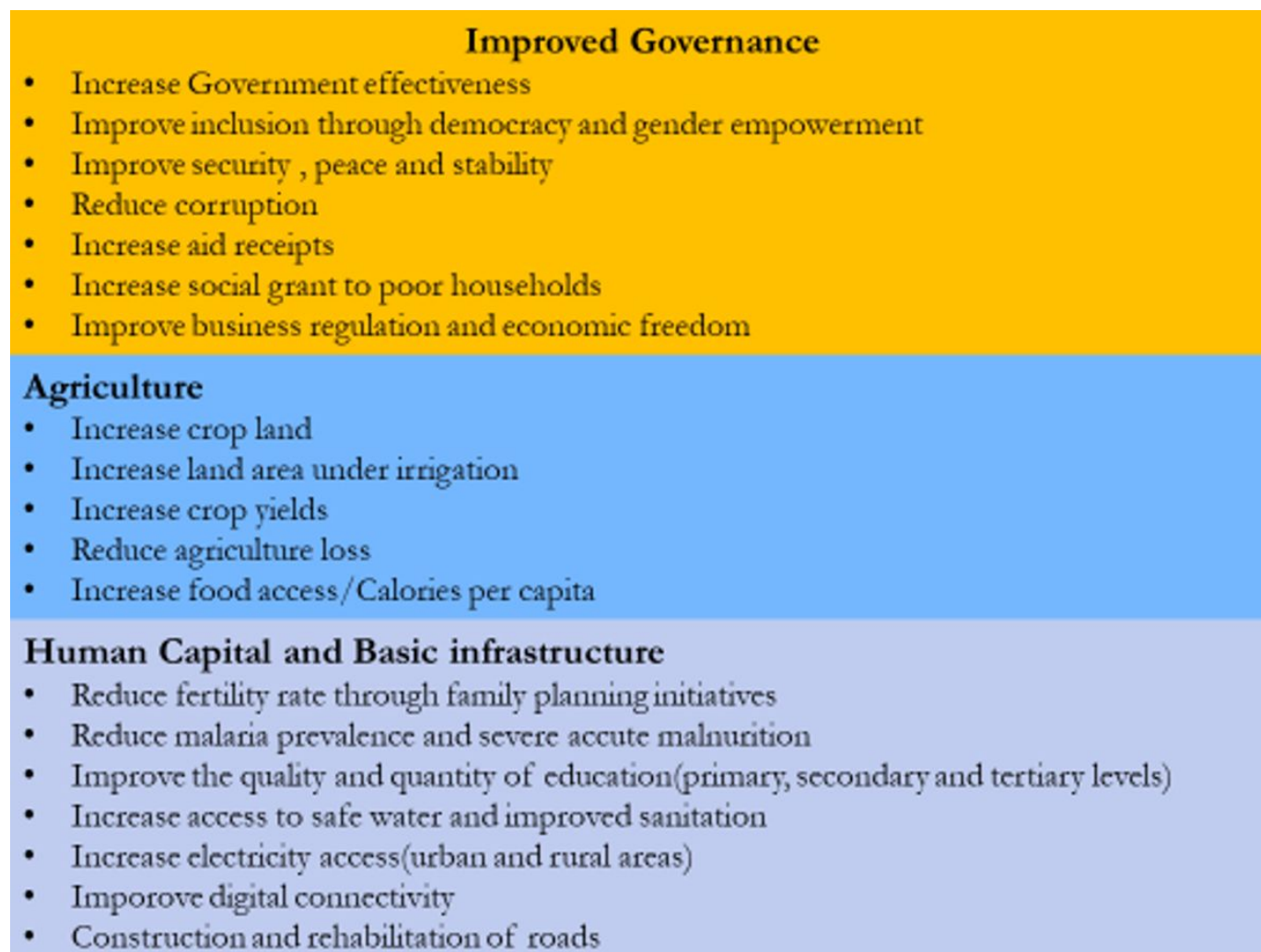
Yet the region is unlikely to find a positive footing without domestic reform, particularly to unlock the potential of the informal sector and small and medium enterprises in providing employment opportunities for its large youth bulge.

The scenarios components presented in Chart 26 constitute the combined impact of such a positive scenario. It consists of efforts to improve governance, agricultural production, human capital, and basic infrastructure. The components are subsequently combined into an Integrated Development Push scenario that is compared with the Current Path.

In line with the second 10-year implementation plan for Agenda 2063, the interventions within each cluster commence in 2024 and present a subsequent 10-year push to 2033 with the improvements subsequently maintained out to 2040. This period coincides with the second 10-year implementation plan of the African Union's (AU) Agenda 2063 long-term vision for the future of Africa.

We argue that the Horn nations should first focus on the fundamentals. The interventions are all benchmarked with aggressive but reasonable targets that have been achieved by countries that are at similar levels of development or had the same challenges as the Horn of Africa countries (see annexure).

Chart 26: Intervention clusters



Source: Authors

It would be easy to craft and describe a negative scenario (bleak future) for the Horn given the current situation in the region characterised by myriad political, security and social crises. These include events in Tigray that have inserted Eritrean military forces into the territory of Ethiopia, with subsequent clashes between the Oromo and Amhara ethnic groupings, and between Ethiopia and Sudan over the al-Fashaga triangle.

Other problems include military action by Egypt to destroy or damage the GERD, increased terrorism in Somalia, and further escalation of the war of words between Somalia and neighbouring Kenya on their maritime boundary. The possibility of harsh drought causing a significant decline in crop yield and rising food prices across the region also contributes to this negative scenario. As does the disintegration of the South Sudanese unity government and the failure of the transitional government associated with severe economic woes in Sudan.

There is, however, little policy value in modelling such a scenario. It would require large-scale humanitarian action by the international community and lead to the reversal and destruction of the progress achieved, most prominently in Ethiopia.

We prefer to be optimistic about the future of the region and hence focus on how to improve the countries' long-term development prospects.

Improved Governance component

In this component, we proceed on the premise that the Horn nations are able to make progress towards greater stability, which is crucial to improving the well-being of millions of people plagued by famine and severe multidimensional poverty in the region.

Keeping the region stable will allow the Horn nations to focus on their domestic goals. Thus we assume that the AU Border Programme, the Horn governments and the various borderland communities have agreed on the demarcation of the Horn nations' borders. And that there is a clear and strong commitment—including from the Gulf countries—that they do not interfere in their neighbours' internal affairs.

With the support of the international community and countries such as China, the EU and the US, the sum impact would result in a de-escalation of the ongoing rivalries that have caused so much instability in the Horn of Africa.

Furthermore, we proceed on the premise that with visionary leadership and sincere political will, the Horn governments promote national unity and pursue settlements that distribute power more widely and desist from ethnic and religious mobilisation for political purposes. In other words, they foster a democratic culture based on respect for the rule of law, consensus building, fair policymaking, and equitable division of power and resources. This would lead to more political freedom and civil rights, gender empowerment and a sense of unity in the Horn nations. We recognise that change would be difficult, particularly in Eritrea, Somalia and South Sudan.

The support of the international community would be important as the Horn governments work at improving governance institutions and strengthening state capacity, particularly in Somalia and South Sudan in the aftermath of elections. All parties would need to commit to dialogue and reconciliation.

Fighting rampant corruption in the Horn countries is a prerequisite for good governance and the rule of law, which are the foundation for sustainable development. Progress will only happen if the Horn's authorities set up effective and efficient anti-corruption agencies, and if leadership commits and demonstrates no tolerance of this endemic cancer that permeates all levels of administration.

Also, the economies of the Horn of Africa countries are among the most closed in Africa, resulting in poor scores in the World Bank's ease of doing business index. Progress with this component implies that the governments implement the necessary policies and reforms to improve business regulation, reduce bureaucratic difficulties and improve economic freedom to promote an environment that is attractive to domestic and foreign investments.

In this scenario component, the regional GDP increases by about US\$98 billion (15%) relative to the Current Path in 2040. The average income increases by about 10% while the total number of poor people in the region is eight million fewer than on the Current Path in the same year.

At the country level, the size of the Ethiopian economy increases by nearly US\$72 billion (16%) as compared to the Current Path in 2040, while the GDP per capita is US\$571 larger than on the Current Path. The number of people living in extreme poverty in Ethiopia is about three million fewer than the projected value on the Current Path in 2040

In Sudan, the Improved Governance scenario component respectively increases the GDP and GDP per capita by about 12% (US\$19.9 billion) and 7.6% (US\$420.7) relative to the Current Path in 2040. The poverty rate also declines by nearly three percentage points which translates to about two million fewer poor people compared to the Current Path in the same

year.

As for South Sudan, the size of its economy and average income increase respectively by US\$1.7 billion (about 12%) and US\$191 (8%), relative to the projected values in 2040 on the Current Path. The scenario also reduces the size of the population of South Sudan living in extreme poverty. The poverty rate declines to 36.6% by 2040 against 41.6% on the Current Path. This is equivalent to a five percentage-point decline in extreme poverty rate or 632 000 fewer poor people than on the Current Path.

In this scenario component, the size of the Somali economy increases by US\$1.8 billion (about 15%) as compared to the Current Path in 2040 while the GDP per capita is US\$130 (11%) larger than on the Current Path. The number of people living in extreme poverty is about two million fewer than the projected 12.3 million on the Current Path in 2040.

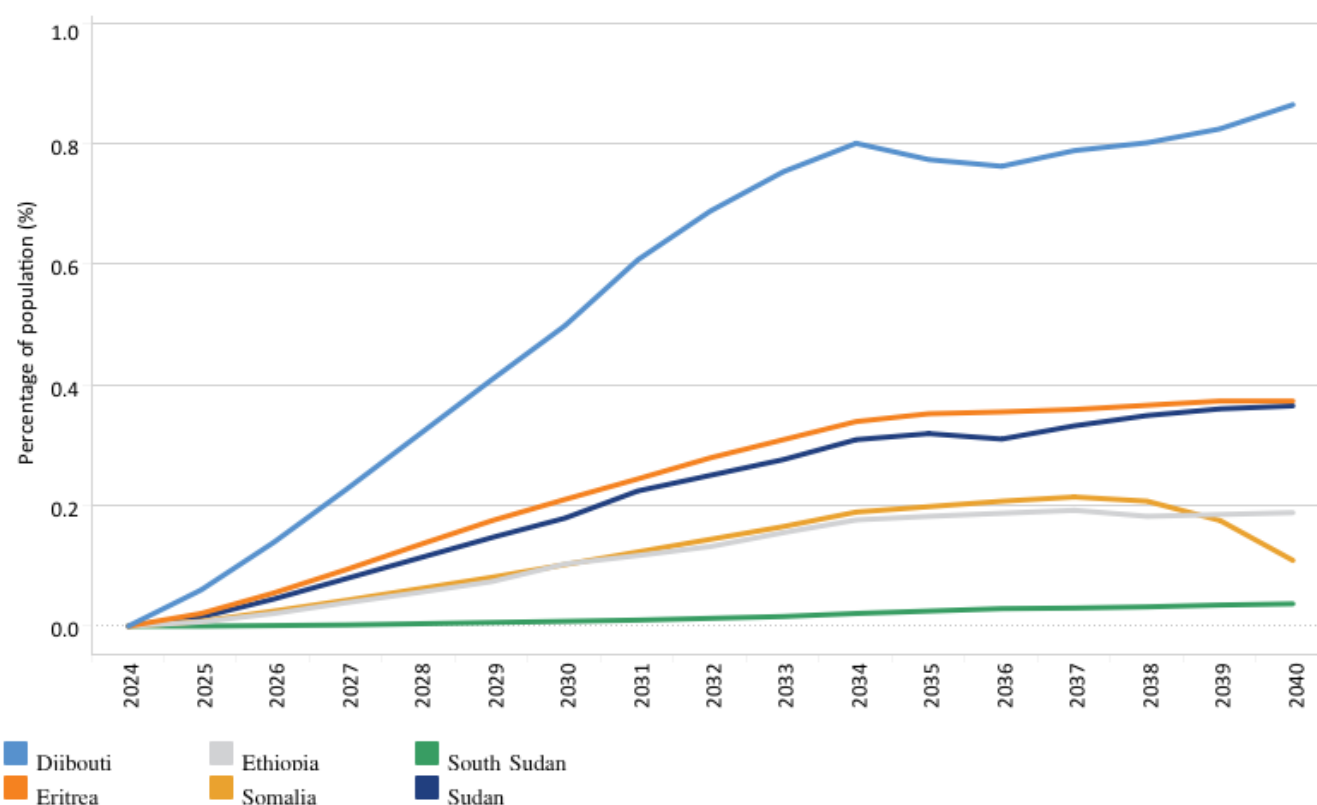
In Eritrea, the size of the economy and the average income respectively improve by about 16% (US\$1.2 billion) and 10.6% (US\$330) relative to the Current Path in 2040. The poverty rate also declines by nearly 6.5 percentage points which translates to about 331 000 fewer poor people relative to the 2.1 million projected on the Current Path in 2040.

As for Djibouti, the size of its tiny economy and GDP per capita increase by US\$0.9 billion (about 16.9%) and US\$724.8 (nearly 11%), relative to the projected 2040 Current Path values. The scenario also reduces the number of people living in extreme poverty. The poverty rate declines by 4.6 percentage points compared to the Current Path in 2040 (60 000 fewer poor people).

Improving governance is an important vector to promote inclusive growth in the Horn nations. In absolute terms, the most significant impact of this scenario is found in the two largest economies of the region, namely Ethiopia and Sudan. However, in percentage change, the scenario causes the most significant improvement in GDP and GDP per capita respectively in Djibouti and Ethiopia, while Somalia achieves the largest decline in extreme poverty rate.

Chart 27 shows the impact of the Improved Governance component on FDI flows to the Horn of Africa countries. In absolute terms, Ethiopia and Sudan receive the bulk of additional FDI inflows while Djibouti, Sudan and Eritrea are the major recipients when measured as a percentage of GDP. This finding is in line with the idea that political stability is one of the key determinants of FDI in much of Africa.

Chart 27: FDI in the Improved Governance component: additional FDI relative to the Current Path



Source: Forecast in IFs version 7.63

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Given its strategic location, improvement in governance, security and stability in the Horn region could attract more FDI, especially to manufacturing and services sectors. This investment could contribute to building a dynamic private sector, which is crucial for economic diversification, job creation and poverty reduction. This is particularly important for Ethiopia, which seeks to build a strong manufacturing sector. If the conflict in Tigray drags on, it will be hard for the country to attract foreign investors into its manufacturing sector, which relies heavily on foreign investment.

Agricultural component

Agriculture is a crucial lifeline for most of the population in the Horn of Africa. About 70% of the labour force in the Horn works directly in the agriculture sector. However, limited arable land, low productivity, conflicts, water scarcity and poor infrastructure along with droughts and other climate-related shocks hinder agricultural production.

Millions of people experience hunger and undernutrition in the region, which relies heavily on imported foodstuffs. Djibouti, for instance, imports 90% of its food. This makes the Horn countries vulnerable to international price volatility and erodes their current account balances.

In this scenario component, we proceed on the premise that international development partners, Gulf states and countries like China work closely with the Horn governments. Together they address the challenges faced by agriculture production by providing financial, technical and logistical assistance. Thus, the constraints posed by the limited available arable land and the recurrent droughts are circumvented by investing in improved irrigation techniques, climate-smart technologies and drought risk management for climate-resilient agriculture.

Also, efforts are made to improve access for poor farmers to productive resources such as credit, agricultural inputs (fertilisers, high-yielding seeds, pesticides and herbicides), farm and off-farm extension services and technology. Agricultural science and research are promoted by enhancing the capacity of local universities and research institutions specialised in agricultural science and technology.

Governments of the Horn states also engage in broad land reform and strengthen land tenure for all the population, including vulnerable and minority communities. The rollout of well-designed land reform allows farmers to access credit and to invest in their land. The amount of land under cultivation increases where this is possible. These policies and actions raise agricultural productivity and production in the Horn countries.

To ensure that the food produced makes it to the domestic markets, governments improve rural infrastructure to reduce agricultural losses along the supply chain from producer to consumer. They also enhance the functioning of food markets to facilitate the connection between food surplus and food deficit areas. To improve food access for the chronically food insecure people, Horn governments design social protection programmes using in-kind support such as free food banks for the vulnerable, with the support of development partners and international NGOs.

In sum, this scenario component improves food production and availability by increasing land under cultivation, irrigation facilities, crop yields, the provision of rural infrastructure such as storage facilities and reducing other inefficiencies in the production system.

Making this scenario component a reality would increase the average crop yield to 5.1 tons per hectare, which is above the projected average for low-income Africa but far below the levels of Rwanda in 2040. The average agricultural production is about 254.6 million metric tons by 2040, 65% higher than the Current Path forecast for the same year.

Agricultural imports decline by 57.8% relative to the Current Path by 2040 while the average number of malnourished people in the region decline by about 22% compared with the Current Path. This translates to 8.1 million fewer malnourished people than the Current Path forecast in 2040.

The size of the regional economy is US\$67.5 billion (10.3%) larger than the Current Path forecast in 2040 while the GDP per capita increases by US\$322.6 (about 7%) compared to the Current Path. The average number of people living in extreme poverty (less than US\$1.90 per day) in the Horn region is nearly eight million fewer than the projected 36.9 million on the Current Path in 2040. This is equivalent to a 2.6 percentage-point decline in the poverty rate relative to the Current Path.

At the country level, the agricultural component increases Ethiopia's GDP by US\$41.4 billion (9.3%) compared to the Current Path in 2040, while the GDP per capita is US\$260 (about 5.6%) larger than the Current Path forecast. The number of people living in extreme poverty is about four million fewer than the projected value on the Current Path in 2040, a two percentage-point decrease in the poverty rate.

For Sudan, the agriculture scenario component respectively increases the GDP and GDP per capita by about US\$21.9 billion and US\$535.2 relative to the Current Path in 2040. The extreme poverty rate also declines by three percentage points which translates to more than two million fewer poor people compared to the Current Path.

In the agriculture scenario component, the size of the Somali economy increases by US\$1.4 billion (about 11%) as compared to the Current Path in 2040 while the GDP per capita is US\$98 billion (7.5%) larger than on the Current Path. The poverty rate declines by about 4.5 percentage points, which translates to 1.2 million fewer poor people than the projected 12.3 million on the Current Path in 2040.

The agriculture component also has a positive impact on economic growth and poverty reduction in Eritrea. Indeed, the size of the Eritrean economy and the GDP per capita, respectively, improve by about 11.4% (US\$1.1 billion) and 9% (US\$283.4) relative to the Current Path in 2040. The poverty rate also declines by 6.9 percentage points relative to the Current Path in 2040.

This scenario component increases South Sudan's GDP and GDP per capita respectively by US\$1.7 billion (11.5%) and US\$209.3 billion (8.6%) relative to the projected values in 2040 on the Current Path. The poverty rate declines to 38.6% by 2040 against 41.6 % on the Current Path. This is equivalent to a decline of 2.9 percentage points in extreme poverty rate relative to the Current Path in 2040.

The Agriculture scenario component has a marginal impact on GDP, GDP per capita and poverty reduction in Djibouti. The GDP increases by US\$0.09 billion (about 1.7%) while the average income improves by US\$73 billion (0.9%) relative to the Current Path forecast in 2040. The poverty rate declines by 1.3 percentage points compared to the Current Path in 2040.

The Agriculture scenario component improves GDP and GDP per capita and contributes to poverty reduction in all the Horn nations. In absolute terms, the most significant impact of the Agriculture scenario is found in Ethiopia and Sudan. In sum, modernising the agriculture sector could be an effective way to improve food security and economic and human development in the Horn of Africa countries, albeit to varying extents.

Human Capital and Basic Infrastructure component

High population growth, low schooling, dysfunctional health systems and weak infrastructure are hindering economic and human development in the Horn of Africa. Somalia, for instance, has the second highest fertility rate in the world while South Sudan and Somalia have the lowest per capita electricity usage in Africa.

This growing share of child dependants relative to the working-age population is retarding the population dividend. Reducing fertility and improving access to education, health services and basic infrastructure are crucial for social stability and long-term inclusive economic growth in the Horn.

In this scenario component, we proceed on the premise that the Horn nations, especially Ethiopia, Eritrea, South Sudan and Somalia, have acknowledged the importance of reducing fertility in the attainment of the SDGs relating to poverty, education and health. They have therefore crafted and implemented a set of policies that include, among others, raising the minimum legal age for marriage, providing access to safe and effective cost-free (or low-cost) contraception and improving female education and employment opportunities.

Education is an important vector of change; it improves health and livelihoods. Thus, the Horn governments collaborate closely with development partners and NGOs to improve access to education. They do this by improving the availability of learning institutions and addressing language barriers that adversely affect participation in education. Also, they address issues that disproportionately affect disadvantaged and marginalised communities to improve equitability in access. They encourage female education to reduce inequality in education access between boys and girls. In this vein, legislation and sensitisation programmes and campaigns are put in place to address the socio-cultural barriers to girls' participation in education.

Efforts are also made to drive more students into technical and vocational training through scholarships and other incentives. The quality of education is typically even more important than increased access. Therefore the Horn nations take measures to improve the quality of education to provide the needed skills for the job market.

In addition to the strengthening of the education system, the Horn countries also work at improving the health system.

Dysfunctional health systems, financial constraints and limited availability of services hinder access and use of health services in the Horn.

In this scenario component the health authorities in the Horn region, together with international development agencies, define policies, plans and strategies to improve access to affordable healthcare. They focus on reducing widespread acute and chronic malnutrition and communicable diseases by improving access to safe water and improved sanitation, providing feeding programmes for children and pregnant and lactating women.

They distribute ready-to-use therapeutic food, micronutrient powders and lipid-based nutrient supplements, among others, to treat children suffering from severe and acute malnutrition. Efforts are also made to integrate safe motherhood programmes into the primary health system. To improve the quality of health service delivery, a special programme is designed to support health workers' capacity development. These policies and actions significantly reduce neonatal mortality and infant and maternal mortality in the region.

The Horn governments also improve access to other core infrastructures such as electricity and ICT. They invest in renewable sources of energy and mini-grid and standalone off-grid systems to increase the share of the population that has access to electricity in both rural and urban areas competitively and effectively. Obsolete machines and other equipment are replaced to reduce electricity transmission and distribution loss.

In recent years, Sudan and Ethiopia have significantly increased their road network. We proceed on the premise that this trend will continue and their peers in the region will follow their path. Physical infrastructure is important to provide access to markets, education and other essentials.

Improvement in road and electricity access is complemented with improvement in ICT access. Liberalising the ICT sector in Ethiopia, Djibouti and Eritrea has intensified competition and made quality ICT services available at affordable costs for the population. This increasing digital connectivity fuels innovative ways to further improve access to basic services such as safe water, improved sanitation and better education.

Should this scenario component materialise, the average fertility rate of the Horn region would decline to 2.5 by 2040, a drop of 41% between 2024 and 2040. This is substantially lower than the projected average of 3.6 births per woman for low-income Africa in 2040. The promotion of modern contraceptive use along with the improvement in female education has significantly reduced fertility in the Horn region. On the Current Path, the projected average fertility rate for the Horn in 2040 is 3.1 births per woman.

In this scenario component, the regional GDP is US\$42.3 billion (6.5%) larger than the Current Path forecast in 2040. The GDP per capita is US\$325 billion (6.9%) larger in 2040 than the projected value on the Current Path. The average number of poor people in the region is 6.3 million fewer in the scenario than the Current Path forecast in the same year. However, this regional picture masks large differences between countries when comparing the impact of this scenario component. In absolute terms, the impact of the scenario on GDP, GDP per capita and poverty reduction is larger in Ethiopia and Sudan than in the other Horn countries.

In Ethiopia, the scenario leads to a sizable increase in GDP (US\$28.6 billion or 6.4%) relative to the Current Path forecast in 2040. The GDP per capita of Ethiopia is also US\$363 higher than on the Current Path in the same year. Family-planning policies associated with an investment in health, education and basic infrastructure have significant potential to promote inclusive growth in Ethiopia. Indeed the poverty rate in this scenario declines by about 1.1% which is equivalent to 2.2 million fewer poor people compared to the projected 8.9 million on the Current Path in 2040.

In Sudan, the scenario increases the size of the economy and the average income respectively by US\$10.8 billion (6.4%)

and US\$342 billion (about 6.2%) relative to the Current Path forecast in 2040. The number of poor people in this scenario is more than 1.5 million fewer than the Current Path forecast in the same year. This translates to a nearly two percentage-point decline in the poverty rate.

The GDP of Somalia increases by US\$0.91 billion (about 7.4%) compared to the Current Path in 2040 while the GDP per capita is US\$100 billion (7.6%) larger than on the Current Path. The poverty rate declines by about 5.3 percentage points, which translates to 1.7 million fewer poor people than on the Current Path.

In line with its peers, Eritrea records positive outcomes in terms of economic and human development in this scenario. Indeed, the size of the Eritrean economy and the average income, respectively, improve by about 7% (US\$0.5 billion) and 5.8% (US\$181 billion) relative to the Current Path in 2040. The poverty rate also declines by 3.2 percentage points relative to the Current Path forecast in 2040.

This scenario component increases South Sudan's GDP and GDP per capita respectively by US\$1.1 billion (about 7.3%) and US\$157 billion (6.5%) relative to the projected values in 2040 on the Current Path. The poverty rate declines to 38% by 2040 against 41.6 % on the Current Path. This is equivalent to a 3.6 percentage-point decline in the extreme poverty rate or half a million fewer poor people than on the Current Path in 2040.

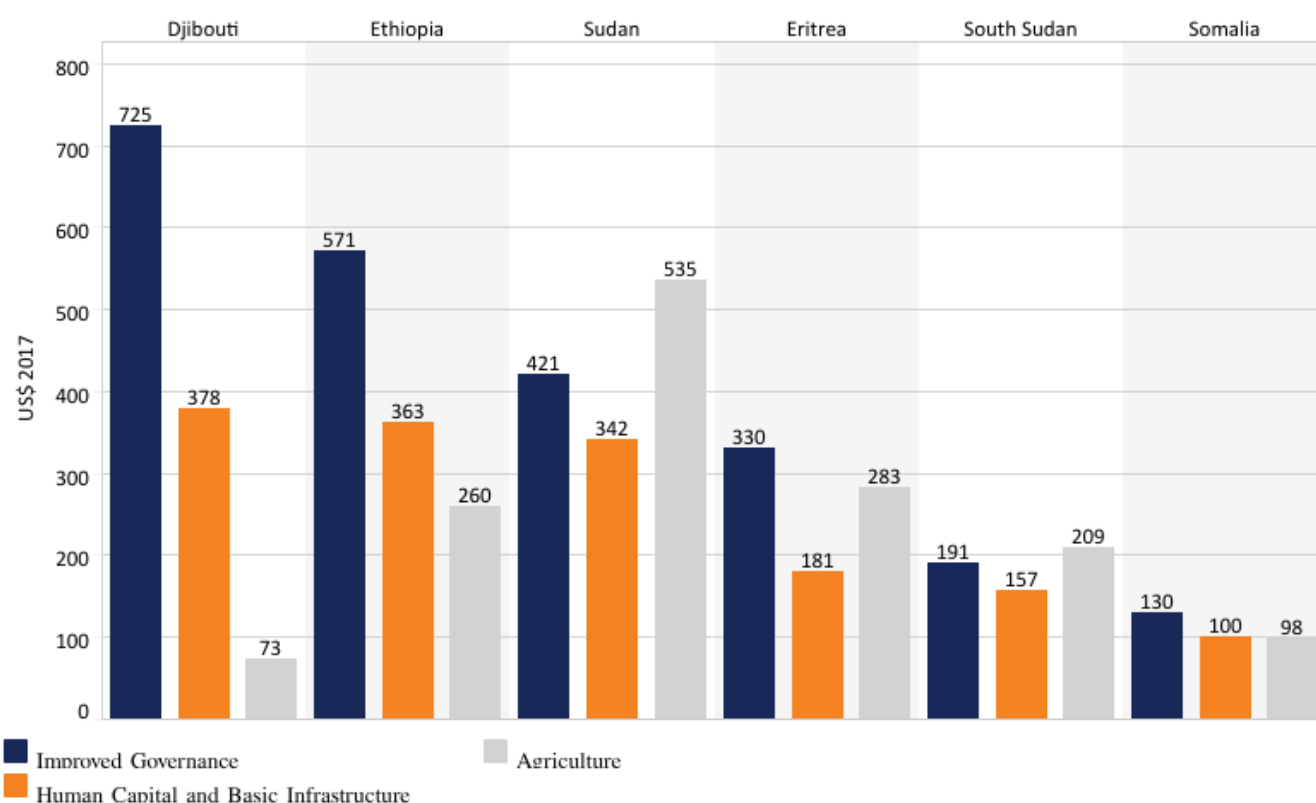
Similarly, this scenario increases Djibouti's GDP by US\$0.35 billion (about 6.7%) while the average income improves by US\$378 billion (6.3%) relative to the Current Path forecast in 2040. The poverty rate declines by 2.1 percentage points compared to the Current Path in 2040.

In sum, these findings reveal that a concerted push to reduce fertility and improve education, health services and basic infrastructure provision could be an effective lever to boost economic growth and human development in the Horn of Africa countries.

Comparing the impacts of scenario components

The scenario components have a positive impact on development indicators and economic growth in all Horn countries. The Improved Governance scenario component has the most significant impact on the expansion of the GDP per capita in Djibouti, Ethiopia, Eritrea and Somalia while the Agriculture scenario component has the greatest impact on average income in Sudan and South Sudan (Chart 28).

Chart 28: GDP per capita in each scenario component – variation relative to the Current Path in 2040



Source: Forecast in IFs version 7.63, historical data from International Monetary Fund and World Bank

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Djibouti and Eritrea, and Ethiopia (until recently), enjoy political stability but the difficult business climate hinders private investment and growth. Djibouti has one of the highest costs of electricity in the world and broadband Internet service is expensive and of poor quality. Also, the judicial system lacks independence and impartiality.

In Somalia, insecurity, corruption and the lack of legislative frameworks hinder economic growth. The Improved Governance scenario, which improves security, business environment and institutional quality, therefore has a significant impact on growth and income per capita.

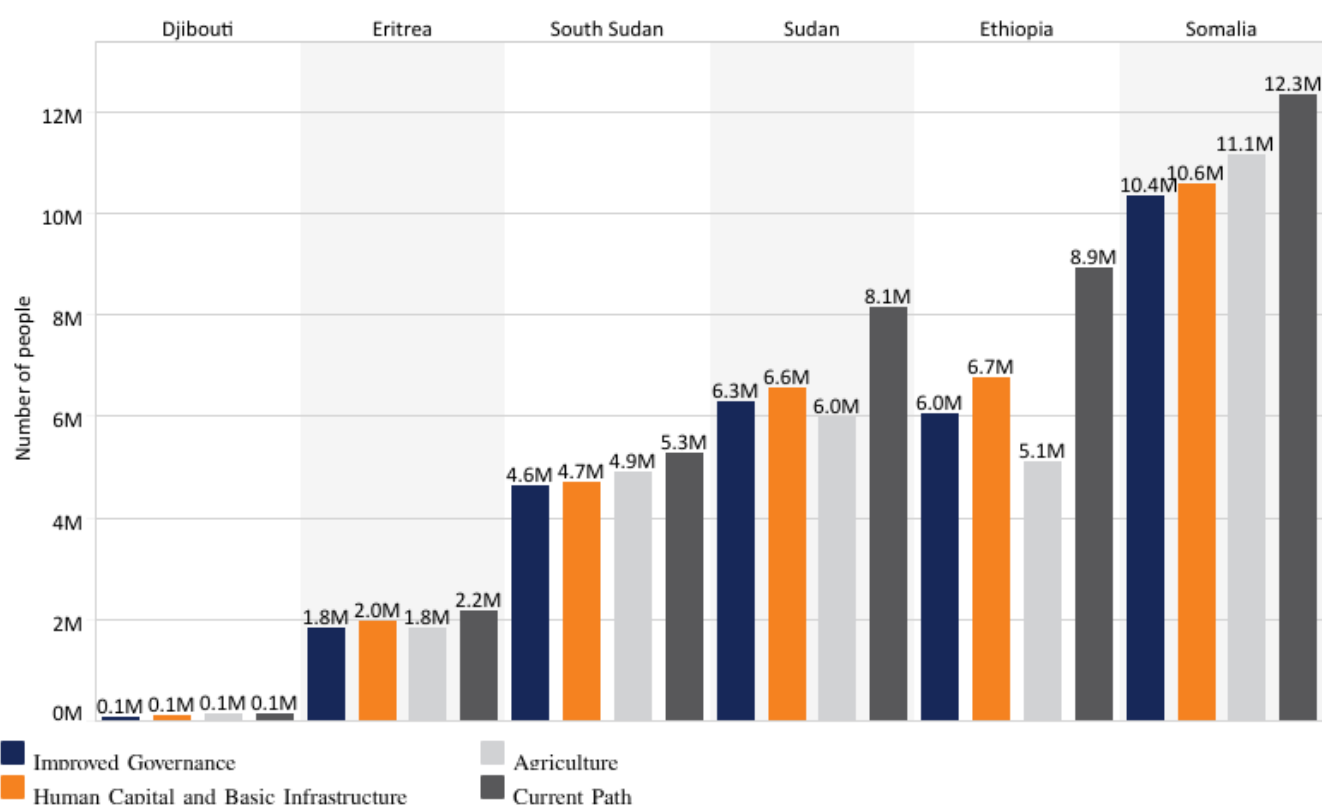
Given its limited potential, the Agriculture scenario component has the least impact on Djibouti's GDP per capita. This is expected as only about 0.04% of land in the country is arable. The only way to increase agricultural production is to improve productivity. Djibouti could follow the example of the Netherlands which, despite its small land area, has become the second largest agricultural exporter globally after the US. However this will require significant investment in climate-smart technologies and productivity-enhancing farming methods.

Chart 29 shows the impact of the scenario components on poverty. In all the countries, the total number of poor people in each scenario component is lower than the Current Path. In other words, all the scenarios contribute to poverty reduction in the Horn of Africa.

The Improved Governance scenario component has the lowest number of poor people living in extreme poverty in Djibouti and Somalia, while the Agriculture scenario component has the lowest number of poor people in Ethiopia, Eritrea and Sudan. In South Sudan, the Agriculture, the Improved Governance, and Human Capital and Basic Infrastructure scenario components are neck and neck in reducing poverty.

Sudan and South Sudan have huge agriculture potential compared to their peers in the region. In these two countries, between 60% and 80% of the working-age population rely on agriculture for their food and livelihoods. The development of the agriculture sector will be crucial for poverty reduction and the consolidation of long-lasting peace in South Sudan.

Chart 29: Extreme poverty at US\$1.90 in each scenario component and the Current Path in 2040



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Djibouti has the lowest number of poor people in the Horn region, even when extreme poverty is measured at US\$3.20 (poverty line for lower middle-income countries), mainly due to its tiny population rather than a deliberate policy to eradicate poverty.

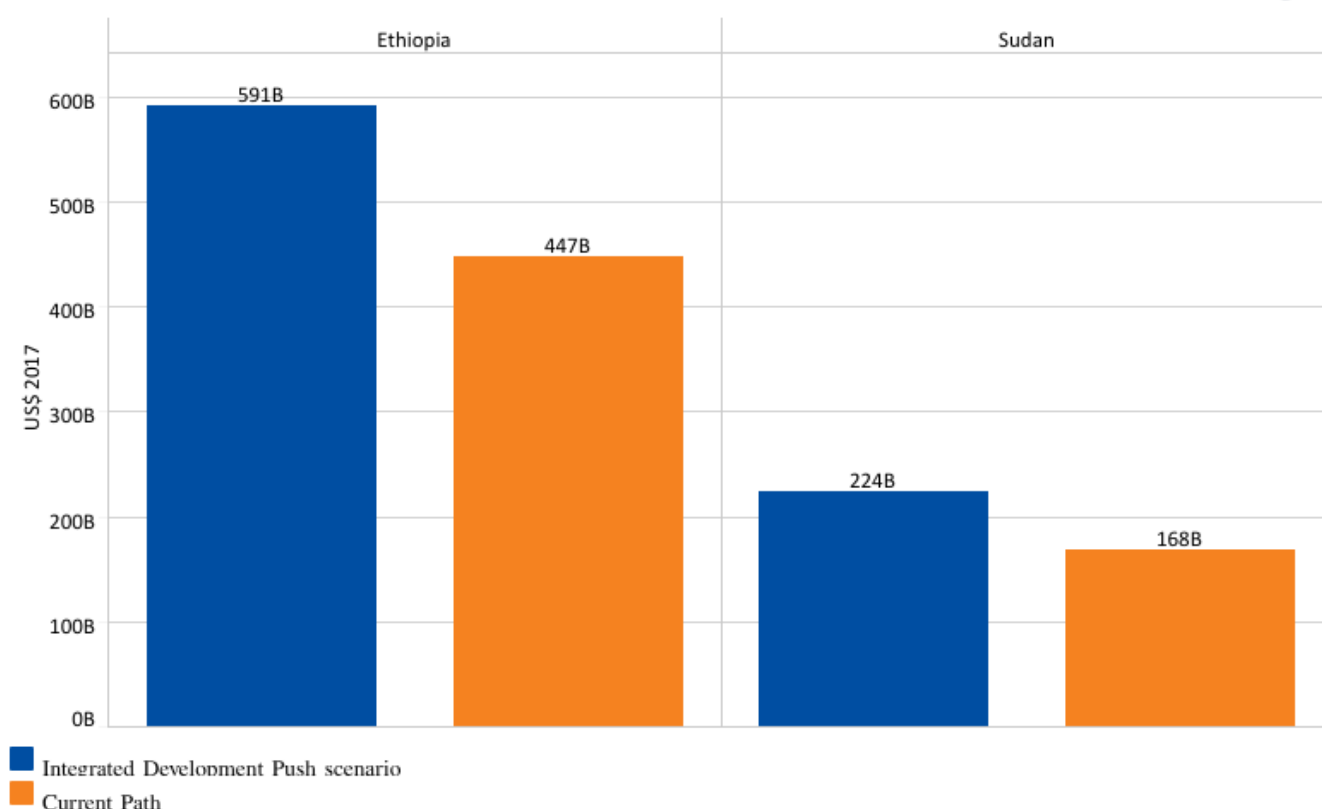
Overall, the findings reveal that improved governance, better agriculture production and investing in human capital and basic infrastructure provision all significantly impact poverty reduction and the expansion of the Horn of Africa economies' countries.

As the agriculture sector employs the largest portion of the labour force in the Horn, investing in the sector would increase income and consumption. Similarly, policy coordination and implementation across the education, health and infrastructure sectors could yield better economic and human development impacts in the region. However none of this is possible without security, peace and stability. Conflicts and insecurity cause significant damages to agriculture production and infrastructure, undermine governance effectiveness and curtail education and health services with negative effects on growth and human development.

The impact of the Integrated Development Push scenario

In this section, we combine the above-mentioned sectoral scenario components into an Integrated Development Push scenario. This Combined scenario simulates the impacts of a coordinated push across development sectors on the future of the Horn of Africa countries. Chart 30-a and 30-b show the impact of the Integrated Development Push scenario on the expansion of the Horn Africa economies.

Chart 30-a: GDP in the Integrated Development Push scenario in 2040 GDP in Ethiopia and Sudan in 2040: Current Path vs the Combined scenario



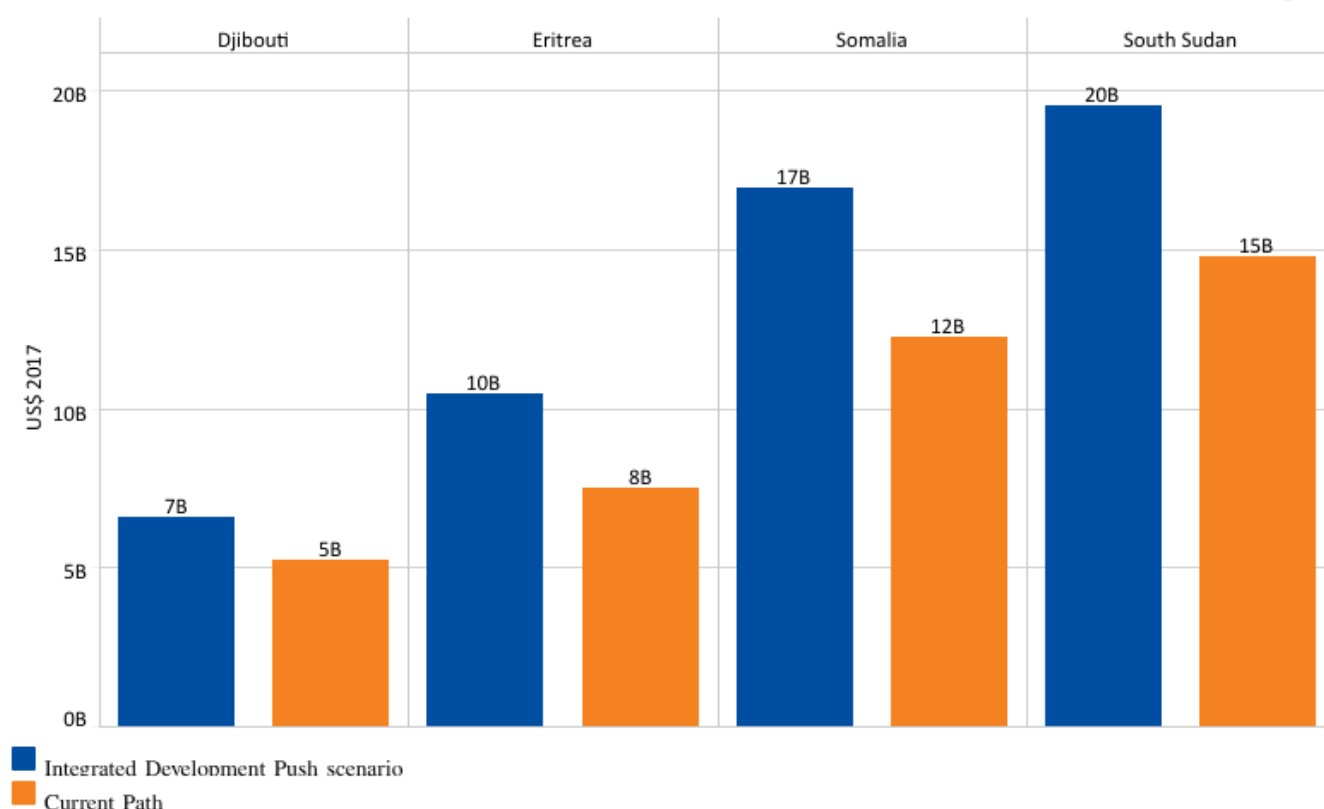
Source: Forecast in IFs version 7.63; historical data from International Monetary Fund and World Bank

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The Integrated Development Push scenario unlocks economic growth in the Horn countries. In absolute terms, Ethiopia and Sudan get the most significant improvement in GDP. These two countries have the largest economies in the region and account for nearly 90% of the regional GDP. In the Integrated Development Push scenario, Ethiopia's economy is US\$144 billion (32.2%) larger than on the Current Path in 2040, while the Sudanese economy expands by US\$55.1 billion (32.7%) relative to the Current Path forecast in the same year (Chart 30-a).

Chart 30-b: GDP in the Integrated Development Push scenario in 2040 GDP in Djibouti, Eritrea, Somalia and South Sudan in 2040: Current Path vs the Combined scenario



Source: Forecast in IFs version 7.63; historical data from International Monetary Fund and World Bank

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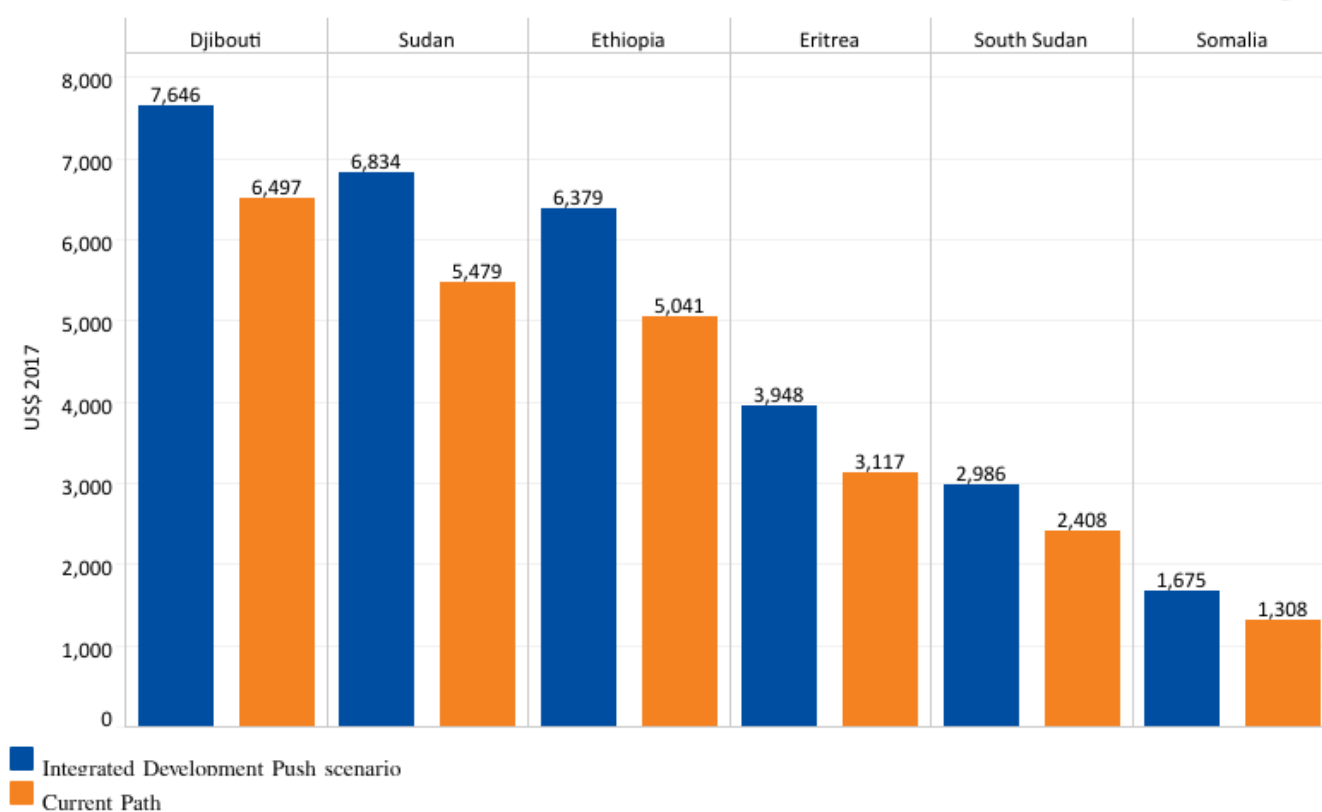
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After Ethiopia and Sudan, South Sudan experiences the largest change in the size of its economy compared to the Current Path, closely followed by Somalia, Eritrea and Djibouti (Chart 31-b). The GDP of South Sudan, Somalia, Eritrea and Djibouti are, respectively, US\$4.8 billion, US\$4.7 billion, US\$2.9 billion and US\$1.3 billion larger in the Integrated Development Push scenario than the projected values on their current development trajectories in 2040. The regional GDP in the Combined scenario is US\$212.9 billion larger than the Current Path forecast in 2040.

Chart 31 shows the impact of the Integrated Development Push scenario on the GDP per capita of the Horn countries. All the countries receive a positive contribution to GDP per capita in this scenario. However, in absolute terms, Sudan records the most significant improvement in GDP per capita compared with the Current Path. Sudan is followed closely by Ethiopia while Somalia has the least improvement in GDP per capita compared with the Current Path in 2040.

The improvement in GDP per capita relative to the Current Path in 2040 is US\$1 346 in Sudan, US\$1 339 in Ethiopia, US\$1 149 in Djibouti, US\$831 in Eritrea, US\$577 in South Sudan and US\$366 in Somalia. At the regional level, the GDP per capita in the Combined scenario (the Integrated Development Push scenario) is US\$1 218 larger than the Current Path forecast in 2040.

Chart 31: GDP per capita in the Integrated Development Push scenario in 2040



Source: Forecast in IFs version 7.63, historical data from International Monetary Fund and World Bank

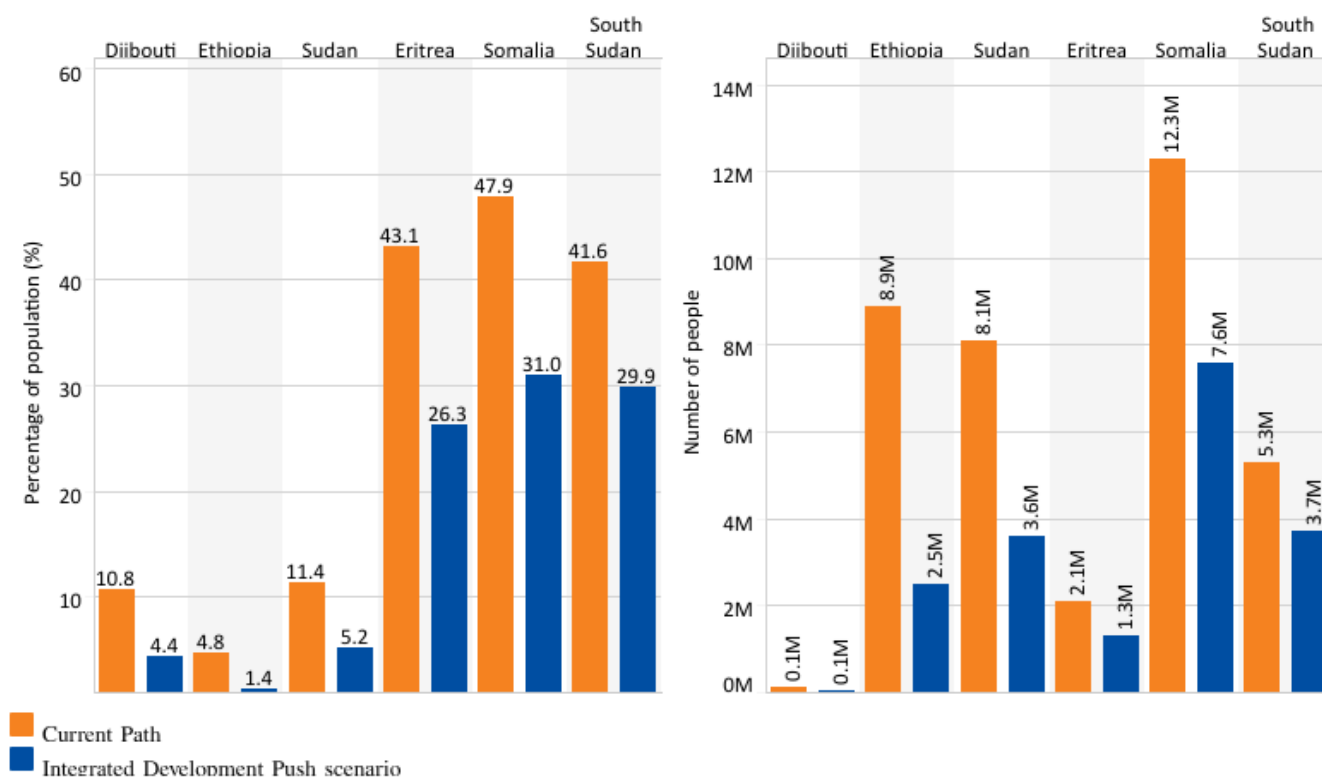
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As shown in Chart 32, the Integrated Development Push scenario (the Combined scenario) causes a significant reduction in extreme poverty in the Horn of Africa. In the Combined scenario, Ethiopia has the lowest poverty rate by 2040 (1.4%). But Djibouti with a poverty rate of about 4.4% has the lowest number of people surviving under US\$1.90 per day (50 000) against 2.5 million for Ethiopia. This is due to the large population of Ethiopia, which is about 100 times that of Djibouti.

In absolute terms, Ethiopia gets the most significant reduction in the number of poor people in 2040 compared with the Current Path forecast. In 2040, the Integrated Development Push scenario has about 6.4 million fewer poor people than the Current Path.

Chart 32: Extreme poverty (US\$1.90) in the Integrated Development Push scenario vs the Current Path in 2040



Source: Forecast in IFs version 7.63, historical data from World Bank

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After Ethiopia, Somalia gets the highest reduction in the number of poor people. Instead of a nearly 48% poverty rate in 2040 on the Current Path, Somalia has a poverty rate of 31% (4.7 million fewer poor people) in the Integrated Development Push scenario. Somalia is closely followed by Sudan with 4.5 million fewer people in the Combined scenario than on the Current Path. South Sudan has about 1.6 million fewer people in the Combined scenario than on the Current Path. Eritrea has 1.3 million people living in extreme poverty against 2.1 million on the Current Path by 2040.

In terms of poverty rate, Somalia, Eritrea and South Sudan get the most significant reduction in poverty rate in 2040. Compared with the Current Path, poverty rates in Somalia and Eritrea decline by nearly 17 percentage points while South Sudan experiences an almost 12 percentage-point decline in its poverty rate. At the regional level, the Combined scenario reduces the number of poor people by nearly 50% relative to the Current Path. By 2040, the average poverty rate in the Horn is 6.5% against 12.4% on the Current Path.

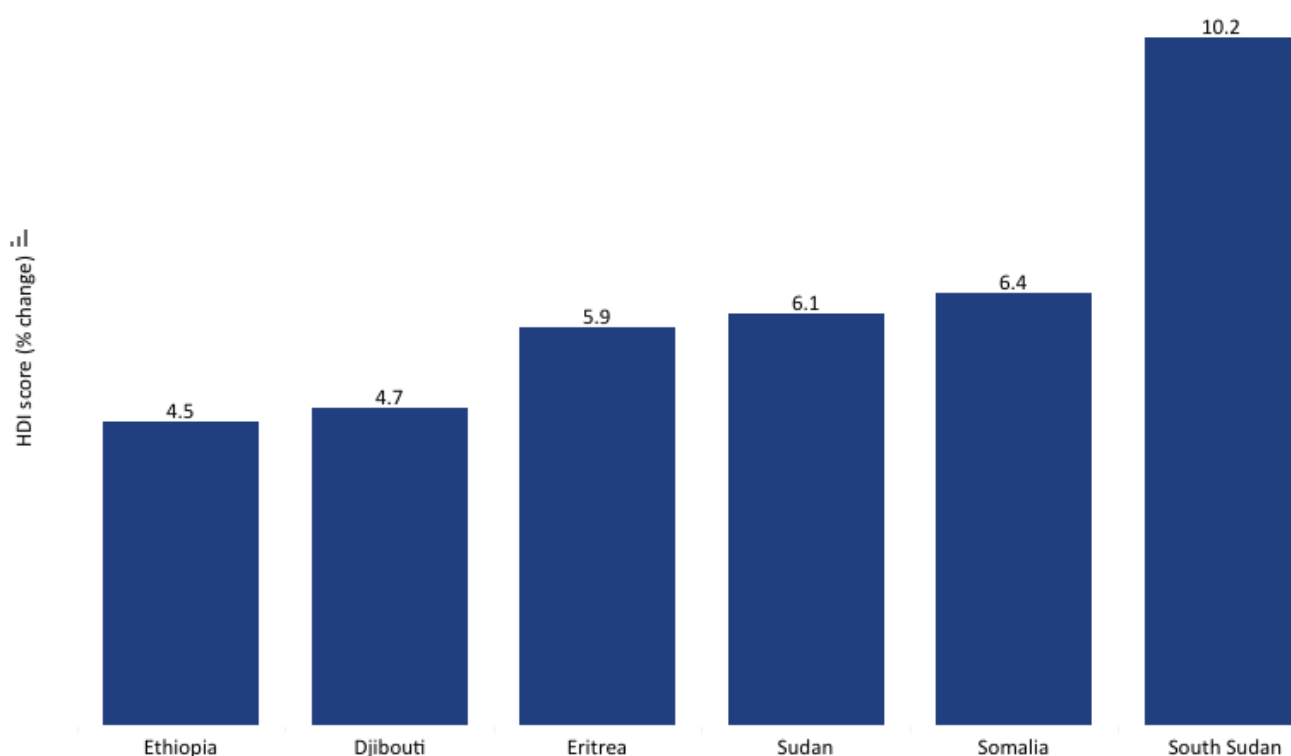
None of the countries achieves the SDG regarding the elimination of extreme poverty by 2030 even in the Integrated Development Push scenario. This shows how deep-rooted poverty is in the Horn of Africa. Hence, the Horn governments need to take more proactive measures in confronting poverty in the region. Imperative among these is empowering the poor by investing in human capital and reducing fertility to accelerate the demographic transition.

The Integrated Development Push scenario leads to a significant improvement in the Human Development Index in all the Horn countries. This is driven by improvements in education, health and the living standards of the population in the Horn

nations. In percentage change, the biggest improvement in the index is recorded by South Sudan and Somalia. These countries improve from a very low base as they have the lowest levels of human development in the world after Niger and the Central African Republic.

In the Integrated Development Push scenario, South Sudan would rank 178th out of 186 compared to 183rd on the Current Path in 2040. Ethiopia would also rank 150th globally instead of 164th on the Current Path in the same year. In this scenario, the regional Human Development Index score is 12% higher than the projected average for other low-income African countries by 2040.

Chart 33: Human Development Index in the Integrated Development Push scenario: percentage change compared to the Current Path in 2040



Source: Forecast in IFs version 7.63, historical data from UNDP

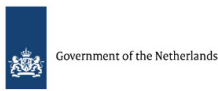
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Overall, in the Integrated Development Push scenario, all the Horn countries could experience significant progress in economic and human development. Our findings have revealed that an integrated development push across sectors where the region has become more peaceful and stable could be a key approach to set the region on a path to long-term inclusive sustained growth and development.

The monetary cost for the Integrated Development Push scenario would undoubtedly be high. Funding would inevitably pose a major challenge that would require international donor assistance, foreign investors and efforts to enhance domestic revenue mobilisation, as well as the development of the domestic financial markets.

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Dr Kouassi Yeboua previously worked as a Senior Researcher at AFI, where he led significant ISS studies on the long-term development prospects of the Democratic Republic of Congo, the Horn of Africa, Nigeria, Malawi, and Mozambique. His research focuses on development economics, macroeconomics, gender, and economic modeling. He holds a PhD in Economics.

Dr Jakkie Cilliers is the ISS's founder and former executive director. He currently serves as chair of the ISS Board of Trustees, head of the African Futures and Innovation (AFI) programme at the Pretoria office of the Institute, and is an extraordinary professor at the University of Pretoria. His 2017 best-seller *Fate of the Nation* addresses South Africa's futures from political, economic and social perspectives. His three most recent books, *Africa First! Igniting a Growth Revolution* (March 2020), *The Future of Africa: Challenges and Opportunities* (April 2021), and *Africa Tomorrow: Pathways to Prosperity* (June 2022) take a rigorous look at the continent as a whole.

About African Futures & Innovation

Scenarios and forecasting can help Africa identify and respond to opportunities and threats. The work of the African Futures & Innovation (AFI) program at the Institute for Security Studies aims to understand and address a widening gap between indices of wellbeing in Africa and elsewhere in the world. The AFI helps stakeholders understand likely future developments. Research findings and their policy implications are widely disseminated, often in collaboration with in-country partners. Forecasting tools inspire debate and provide insights into possible trajectories that inform planning, prioritisation and effective resource allocation. Africa's future depends on today's choices and actions by governments and their non-governmental and international partners. The AFI provides empirical data that informs short- and medium-term decisions with long-term implications. The AFI enhances Africa's capacity to prepare for and respond to future challenges. The program is headed by Dr Jakkie Cilliers.